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TABLE OF CONTENTS

Time Jointness, Excess Capacity and Rate Discrimination in the Public Utility Field . . Page 3
by INGRID E. HAHNE

The Philadelphia Wholesale Fruit and Vegetable Market . . . . . Page 10
by THURSTON H. GRADEN

Business Prospects for 1953 . . . . . Page 17
by BUFORD BRANDIS

The Influence of Philadelphia in Presidential Elections . . . . . Page 21
by WILLIAM J. McKENNA

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Time Jointness, Excess Capacity and Rate Discrimination in the Public Utility Field

by INGRID E. HAHNE*

The fluctuation of demand through time in the electric utility field imposes the problem of establishing rates for peak and off-peak users. Public utilities are often called upon to defend these rates because they are typically discriminatory. This article offers an explanaton and justification for discrimination between peak and off-peak service users under certain conditions. Although the explanation advanced here differs from that which is frequently advanced by the public utilities themselves, this explanation is sounder from the standpoint of economic theory.

THE outstanding characteristic of the rate structures under which public utility services are sold is that they are discriminatory; i.e. they impose different rates for essentially the same service according to the purpose for which it is used or the time at which it is consumed. Although this fact is generally known and accepted, public utility officials nevertheless resent and attempt to disprove the presence of discrimination. In other cases utilities admit the presence of rate discrimination, but argue that rates based on demand rather than cost are justifiable because, as producers of peak and offpeak service, they are multiservice firms which carry on production under conditions analogous to true joint supply. Although time fluctuations in demand create a special price problem, it is submitted that the analogy between this case and true joint supply is not merely a false but also an unnecessary attempt to justify discrimination between peak and offpeak users of service. Economic theory can offer not only a sounder explanation of discriminatory rates for peak and offpeak service, but also a more pertinent justification of their existence.

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JOINT SUPPLY AND TIME JOINTNESS

The fact that price would not be equal to cost of production, even in the long run under pure competition, under conditions of true joint supply has long been accepted. Alfred Marshall recognized that a special price problem arises when the conditions of production are such that two or more products are necessarily obtained in fixed proportions as a result of a single production process. Under these conditions marginal cost cannot be determined for any of the joint products. Since any increase in the output of one product will be accompanied by a proportional increase in the output of the others, the resulting increase in total cost cannot be divided among them on any but an arbitrary basis. Thus, Marshall stated that the division of joint costs between products jointly produced in fixed proportions is governed by the relative value and the intensity of market demand for them.[1]

Many public utility officials argue that fluctuations in the time incidence of demand for utility services imposes a production pattern analogus to that inherent in a true joint supply situation and that rate making on the basis of demand rather than cost of service is therefore justified. Since any plant, public utility or otherwise, is available for rendering output at different times, time jointness would appear to be a universal characteristic of industry. However, it does not impose a special problem when there is little or no time variation in the intensity or demand, or when it is possible to produce for stock. Generally speaking, however, public utilities are characterized by the dual condition of the necessity for satisfying an instantaneous demand, and the impossibility of storing output for future delivery. This is the case, for ex-

[1]The case of Joint Supply with variable proportions imposes no special problem since marginal costs are calculable.

ample, in the demand for passenger service, particularly over relatively short distances. Unlike the demand for freight transportation, the demand for commutation service is for conveyance at a specified period of time, rather than for conveyance within a period of time. Similarly it is characteristic of the provision of such services as telephone and electric power, for here, too, demands fluctuate in time and storage is an impossibility. In all these cases, the necessity of supplying service to meet peak demands creates the possibility of supplying service at other times. It is frequently argued, therefore, that the incidence of demand in time results in a condition analogous to that of true joint supply and that public utilities characterized by time jointness should be permitted rate structures which reflect primarily the demand for their services rather than the cost of serving particular groups of consumers.

At first glance, the analogy between true joint supply and time jointness would appear to break down at the very outset, because we are dealing with a single homogenous commodity produced at different times, rather than with two or more commodities supplied at the same time. However, the argument that true joint costs are present only if two or more commodities are simultaneously produced may logically be waived, if it is agreed that the essence of jointness resides not in product heterogeneity, but rather in the impossibility of varying independently two or more supplies, and hence, in the economic consequences of that fact. When commodities are produced under conditions of true joint supply (as distinct from joint supply with variable proportions) the outputs are inexorably rendered together in such manner that the costs of producing the separate supplies cannot be determined by any but arbitrary methods. The division of the joint costs among the jointly produced products is, therefore, governed by the relative values and the intensity of market demand for them.[2] Thus, if the incidence of demand in time creates a similar impossibility of rational cost calculation, the same justification exists for pricing services rendered under these conditions on the basis of demand.

Although pricing on the basis of demand is the only possible method when costs are truly joint, there is some question whether the incidence of demand in time creates precisely the same pricing problem. When the construction of the physical plant to supply service to peak consumers does create the possibility of service during off-peak hours, it does not impose a physical necessity to produce exactly the same quantity of service during off-peak hours. The individual firm has the option of producing the same quantity, a smaller quantity, or not producing at all. The case is, therefore, different from that of the back-haul which was so vigorously debated by Pigou and Taussig,[3] for the rendition of transportation service in one direction imposes a physical necessity to supply service in the reverse direction. If transportation companies had the option of hauling or not hauling cars back to the point of origin, then the case of the back haul would be analogous to the situation in which the producer has the option of supplying service at different times. Thus, it seems that the incidence of demand in time does not create precisely the same price problem as in a case of true joint supply, for the producer has the possibility of varying the proportion of service supply in peak hours as compared with off-peak hours and can, therefore, calculate marginal costs. It follows that if there is justification for pricing these services on the basis of the relative demands for them rather than cost, it must be grounded on something other than the dubious analogy with true joint supply.

TIME JOINTNESS AND EXCESS CAPACITY

The effect of the fluctuation of demand in time on the presence of excess capacity

[2]Marshall, Alfred, **Principles of Economics** (8th Rev. ed.) Macmillan and Co., London, 1920, pp. 389 ff.

[3]Pigou, Arthur C, "Railway Rates and Joint Costs." **Quarterly Journal of Economics**, Vol. xxx, 1916, pp. 535 ff and 687 ff.

appears to afford the most pertinent justification for the practice of charging rates which reflect differences in the demand elasticities of consumers for peak service as compared with off-peak service. Although detailed empirical data are not available, the fluctuation of demand in time, coupled with the technical conditions of production in the public utility field, constitute presumptive evidence that operation takes place under conditions of decreasing average cost over considerable ranges of output. Since public utilities are obliged to maintain sufficient capacity to satisfy the maximum demand for service, the presence of unutilized capacity during offpeak hours is usually unavoidable. The necessity of covering the large fixed costs associated with the provision of peak service demands imposes the necessity of expanding output, in order to reduce average per unit costs.

ALTERNATIVE RATE STRUCTURES

The reduction of cost associated with the expansion of output when production takes place under conditions of decreasing average cost conditions is at least as desirable from the viewpoint of consumers and the economic community as from that of the utilities. The presence of excess capacity is indicative of a waste of scarce resources for production has then not been expanded sufficiently to reduce average costs to a minimum. The task of the public utility commission is, therefore, to establish a rate structure which will facilitate the expansion of offpeak service and the consequent reduction of excess capacity and per unit costs. Whether or not they can accomplish this without discrimination among consumers can be determined by considering the alternative types of rate structure from which they may choose. Broadly speaking, these alternatives are either to establish uniform rates equal to average or marginal cost for all consumers, or to charge rates which reflect differences in consumer demand elasticities.

The establishment of a uniform rate equal to average cost would not contribute to the expansion of output. Actual service output would equal minimum average cost output within the framework of a uniform rate equal to average cost only if demand is sufficiently large and stable to maintain operations or at near full capacity. But the uneven distribution of demand through time makes this impossible in the public utility field, i.e., the demand for service at a rate equal to average cost will evoke a volume of output smaller than that which could be produced at minimum average cost. This type of rate structure does not have a promotional effect because it offers no inducement to consume during offpeak hours and cannot, therefore, contribute to the expansion of output.

Although a system of uniform pricing at average cost would not contribute to an expansion of output, a system of marginal cost pricing would have a promotional effect. Since marginal cost is below average cost for all relevant ranges of output below full capacity, offering rates equal to marginal cost would result in an expansion of output and, at the same time would avoid discrimination. However, marginal cost pricing would bring with it a host of new problems and considerations which are likely to make it unacceptable both to the public and to the commissions. Specifically, marginal cost pricing would cause utilities to incur deficits at all levels of output below full capacity unless provision were made for compensation through a system of taxes and bounties. This would not only involve a redistribution of income, but also would impose complex administrative problems including the development of a standard technique for calculating marginal cost. However, in the absence of such an arrangement, the utilities must be permitted to charge a rate in excess of marginal cost in order to cover the fixed costs associated with the service. Since utilities are multiservice firms, the latter costs cannot be directly assigned to either peak or offpeak consumers, but must be allocated between them. Since all allocations are arbitrary, the average cost of serving either group cannot be determined with

any degree of precision and it is only by merest chance that consumers are accorded equal treatment under such a rate structure.

A system of rate discrimination is the third alternative and it is, in fact, almost universally used in the public utility field. Because of the conditions under which service is rendered and because of the nature of the demand for service, public utilities are conspicuously adapted to the practice of price discrimination. As already pointed out, the investment in fixed capital equipment coupled with the fluctuation of demand in time results in unutilized capacity, thus establishing a motive for discrimination. Since consumer demand elasticities differ, and technical conditions of distribution make the transfer of service between different users either very difficult or impossible, buyers can be effectively segregated. Further, the local monopoly of these companies is fostered and preserved through public franchise. Thus, all of the conditions necessary to enable them to practice rate discrimination are present.

Since the demands of peak consumers are least elastic they are offered service at relatively higher rates than offpeak users whose demands are more elastic. The total output sold to both groups will be determined by the intersection of the firm's marginal cost curve with the aggregate marginal revenue curve and is comprised of the amounts sold in the separate markets when the marginal revenue in each market is equal to the marginal cost of the whole output.[4] This is shown in Figure 1 in which MR_1 is the marginal revenue curve in the market having a less elastic demand and MR^2 is the marginal revenue curve in the market having a more elastic demand. These curves are derived from demand curves D_1 and D_2 respectively. The lateral summation of both demand curves determines the aggregate demand curve (A D), while the aggregate marginal revenue curve is obtained by summing up MR_1 and MR_2. The total output is, therefore, OC which is determined by the intersection of the aggregate marginal revenue curve with the marginal cost curve. It is comprised of output OA sold it price P_2 to those consumers whose demands are relatively more elastic and OB sold its price P_1 to those whose demands are relatively less elastic.

It is not always certain that public utility output will be larger in consequence of rate discrimination than it would be if a single price were charged to all users. If the demand curve for peak and offpeak service is linear, the aggregate marginal revenue curve will equal the marginal revenue curve which would obtain if a single rate were charged to all users. The output determined by equating either curve with marginal cost would then be identical; thus, output would be no larger in consequence of discrimination, although there will be a difference in the allocation of service between both groups of users and the rates which they are charged. The aggregate marginal revenue curve would have to lie above the marginal revenue curve associated with a uniform rate structure in order for total output to be greater as a result of discrimination. Thus, output will be greater if discrimination is introduced only if the more elastic demand curve is concave (i.e., the demand of offpeak service) and the less elastic demand curve (i.e., demand for peak service) is convex or linear, for then the expansion of output sold in the former market will be greater than the reduction in the output sold in the latter.[5] Whether this would actually be the case in a given situation would presumably have to be established empirically. However, it has been suggested that "there is strong presumption that the discriminatory monopoly revenue curve will ordinarily be to the right of the simple marginal revenue curve. . . . "[6] If this is so, then output achieved under a discriminatory rate structure exceed that which would

[4]Robinson, Joan, **The Economics of Imperfect Competition**, Macmillan & Co., New York, 1934, pp. 182-3.

[5]**Supra.** pp. 190-193.

[6]Weintraub, Sidney, **Price Theory**, Pitman Publishing Co., 1949, p. 317.

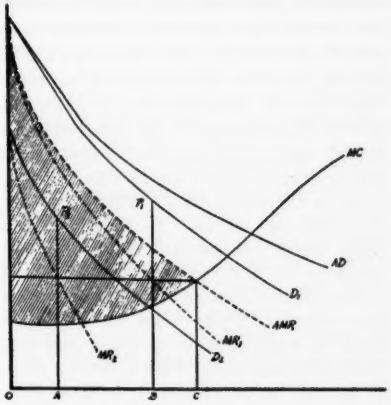

Fig. 1

be produced under a uniform price arrangement. The extent to which output will be greater depends on whether marginal cost is rising or falling. The increase caused by discrimination will be greater if marginal costs are declining than if they are rising. Conversely, if the effect of discrimination is to reduce output, the reduction will be smaller if marginal costs are falling than if they are rising.

RATE DISCRIMINATION EVALUATED

It is sometimes suggested that monopoly discrimination will lead to substantially the same price-output results as those which would be forthcoming under competition, for the monopolist will, if he can segregate his market sufficiently, expand output until price is equal to marginal cost. While there is no doubt that discrimination can result in a more effective use of resources under conditions of decreasing average cost than a single rate, it seems that there is room for serious disagreement that such a policy yields substantially the same results as competitive pricing. Since even utility companies and railroads discriminate only in some manner and in some degree, it follows that their equilibrium output is almost certain to be less than that at which marginal cost equals price. Further, under a system of discrimination it is only the final part of the total output which is sold at a price equal to marginal cost, whereas competitive pricing implies the sale of all units of output at prices equal to marginal cost. When discrimination is practiced, it is obvious that each price in the schedule cannot be equated to the marginal cost of the service of product, hence, all units except those sold to buyers whose demands are most elastic will be sold at prices which diverge from marginal costs. Thus, a maldistribution of resources occurs in the sense that consumers are not able to purchase additional units at marginal cost. To deny consumers the opportunity of purchasing all units of output at their marginal cost is to deny them the possibility of making a rational choice between using factors in one alternative rather than another.

This does not necessarily imply, however, that consumers may not be better off as a result of discrimination than they would be if a single price rules in the case of decreasing average cost. It does make possible the production and sale of a larger output to consumers who would not have been served at all under a single price system. Although it may appear, in the first instance, that consumers who are able to purchase at lower prices are able to derive an advantage at the expense of the higher price consumers, this is not the case. It is true that the high price consumers are bearing a relatively greater portion of the overhead than those who consume at lower prices, but if discrimination were absent, they would have to bear the total burden. Discrimination makes it possible to shift part of the burden to other classes of consumers, who are, nevertheless, able to secure output at prices below average cost. It is not in the least paradoxical to argue that it is conducive to welfare to sell some units of output at less than the unit cost incurred, if a lower price to some groups of consumers makes possible lower production costs to all classes by facilitating the achievement

of a larger output. If this is the case, then discrimination can help to achieve an output which approximates more closely that which would be produced at minimum average cost, given a demand which is not large enough to allow plant and equipment to be operated at that output which would minimize average per unit costs. Thus, discrimination is likely, under conditions of decreasing cost, to lead to an output and investment level which is larger than that which would result under a uniform price arrangement, and which approximates more closely that which would be achieved under perfect competition.

There are, however, other implications which are incident to the freedom of entry of new firms. If the profits of the discriminating monopoly attract new firms, the demand for the product of the original firm will decrease. This will lead to higher unit costs and a smaller output, unless the new demand curve is more elastic than the old one. While the single firm may be able to attain a more efficient utilization of plant by separating its customers in order to discriminate among them in price, it does not follow that it will be able to do so when new firms enter the industry. This would not, however, be a problem in the public utility field, for freedom of entry is impeded by limiting the number of franchises granted.

Although rate discrimination between peak and offpeak consumers of service is economically justified and contributes to their welfare under conditions of decreasing average cost, it does not follow that this policy is always economically desirable in the long run. The gradual expansion of offpeak demand should witness the elimination of discrimination until, in an ideal situation, discrimination becomes unnecessary as a technique for achieving minimum average cost output. Discrimination is justified and contributes to welfare as long as there is insufficient demand at any single price to call forth the minimum average cost output.

The fluctuation of demand in time may, however, be a serious barrier to the elimination of discrimination even if demands for service have increased. At least some consumers would have to pay higher prices under a uniform price arrangement than if discrimination is practiced. If this causes them to decrease their demands, then excess capacity will reappear and average costs of production will rise. This is especially likely when the time incidence of demand is irregular, for when prices are uniform, there is no advantage to purchasing during offpeak hours. Discrimination will then be a more desirable rate policy than the establishment of a uniform price which approximates average cost. This difficulty may, of course, be minimized if demand elasticities also change through time. If consumers who have been induced to buy service at low offpeak rates become habitual buyers, so that they continue to make purchases even if they can no longer get service at as low rates as they originally could, the establishment of a uniform rate structure may become a practical alternative. This will not be the case if the demand increases which take place are for peak rather than offpeak services, for the addition of new equipment will intensify the problem of excess capacity. Unless offpeak demands can also be built up, discrimination is preferable from an economic point of view to average cost pricing. Only if demand is sufficiently intense at all times to maintain capacity or near capacity operations fairly continuously is it practical to set a single rate equal to average cost. To the extent that the fluctuation of demand in time would impose a continuous problem of excess capacity within the framework of a uniform rate structure, the only practical alternative is to permit rate discrimination.

SUMMARY

The argument that fluctuations in the time incidence of the demand for utility services imposes a pattern of production which is essentially similar to that which obtains in a true joint supply situation is a wholly unnecessary attempt to justify discriminatory rates for service. Since

utility services are generally rendered under decreasing cost conditions, discrimination constitutes the most efficient way in which to induce a volume of output which approximates more closely minimum cost output. Apart from marginal cost pricing it is the only way of inducing consumers whose demands are relatively elastic to purchase service. This is to the advantage of all consumers, not just those whose demands are most elastic, for it facilitates greater production and, therefore, lower costs which are advantageous to all users.

Discrimination contributes toward the more effective utilization of resources as long as excess capacity exists. It is conceivable that the gradual expansion of offpeak demands will witness the ultimate elimination of serious excess capacity, in which case discrimination becomes unnecessary as well as undesirable. The ultimate elimination of discrimination turns largely upon the possibility of building up offpeak demands in such manner that an irregular demand pattern will not reappear when a uniform price is established. If this is not possible, discrimination is the only practical means of facilitating efficient production under the special conditions characterizing utility service.

The Philadelphia Wholesale Fruit and Vegetable Market

by THURSTON H. GRADEN*

This article presents and analyzes the growing importance of the Philadelphia Wholesale Produce Market. Shown to be increasingly inefficient and limited as its volume has increased, this article examines the possibilities for new development.

THE marketing of perishable produce is equally as important as the growing of these commodities, and it is of even greater importance than the marketing of many other foodstuffs. Since relatively little can be stored for any considerable period of time because of its nature, the greater part of the harvest of perishable commodities must be sold when ready. According to the Food and Agricultural Organization of the United Nations,

> "Marketing is the crux of the whole food and agricultural problem. It would be useless to increase the output of food, it would be equally futile to set optimum standards of nutrition unless means could be found to move the food from the producer to the consumer at a price which represents a fair remuneration to the producer and is within the consumer's ability to pay." [1]

That the problem of marketing fresh fruits and vegetables in Philadelphia is not new is evidenced by the fact that municipal authorities have taken a growing interest in it for many years. As traffic congestion increased, partly as a result of the larger volume of supplies brought to this market by rail and truck from distant areas and partly by the increased shipments of locally grown produce required to feed the growing population of this metropolitan area, the interest turned to concern for finding a means for facilitating this operation.

Wholesale market areas in Philadelphia, just as in most other cities of the country, have grown up in areas that were set aside for the selling of farmers' home-grown produce. These areas usually have been centrally located and hence the land values have been high. They have developed without the benefit of any planning whatsoever, and this lack of planning has caused the difficulties associated with crowding with which Philadelphia has been faced for the past few decades. The use of refrigerated railroad cars and trucks has in a measure helped to meet the greatly increased demand for fresh fruits and vegetables, but many wholesalers today are attempting to conduct business in buildings which were adapted only to handling the volume of locally-grown produce. Thus, their facilities are entirely inadequate for handling the larger volume and diversified lines of perishable produce. Inefficient layout resulting from the operation of existing facilities, therefore, contributes to the wide spread in price between the farmer and the ultimate consumer.

> "To bridge the tremendous distance between agricultural producers and consumers in the United States, to smooth out the irregular flow or to keep a succession of regular flows of different products meshing in with one another over periods of time, and to set and reset prices continually so that consumers will never lack suppliers at those prices, and vice versa, a huge and complicated marketing system has developed over the years. The system is always a jump or two behind in a stage of transition from what was needed yesterday to what is needed today." [2]

IMPORTANCE OF PHILADELPHIA'S WHOLESALE PRODUCE MARKET

Metropolitan Philadelphia, with a total population of 3.7 million in 1950,[3] consumes huge quantities of food. To supply

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[1]United Nations, Food and Agricultural Organization, **Report of the First Session of the Conference held at the City of Quebec, Canada, October 16 to November 1, 1945,** p. 37.

[2]Shepherd, Geoffrey S., **Marketing Farm Products,** Iowa State College Press, Ames, 1946, pp. 36-37.

[3]Department of Commerce, Bureau of the Census, **Advance Report, 17th Decennial Census,** Washington, 1950.

the demands of the metropolitan population as well as that in adjacent areas, the wholesale market in Philadelphia handled a total of 65.3 thousand[4] carlot equivalents of fresh fruits valued at $137.5 million in the year 1951.[5]

Of the 65.3 thousand carlot equivalents, approximately 30.7 thousand were received by rail while the remaining 34.6 thousand arrived by truck. It will be noted that this was the third successive year in which truck receipts had exceeded rail shipments.[6] It is estimated that chain stores received approximately 25 percent, or 16.3 thousand cars[7] out of the total of 65.3 thousand, while the remainder was sold to independent dealers.

Although the metropolitan Philadelphia area, as is also true in all comparable urban areas, constitutes an area deficient in the production of foodstuffs, the neighboring Middle Atlantic States of New Jersey, Delaware, Maryland, and the balance of Pennsylvania, supplied this city with a total of approximately 16.4 thousand carload equivalents, or 25 percent of the fruits and vegetables received in 1951.[8] An additional 1.6 thousand carlot equivalents is received from New York and Virginia. Thus, a total of 24.0 thousand cars, or approximately 37 percent of produce received, is supplied by comparatively nearby producers, whereas the remaining 63 percent is brought to Philadelphia from distant production centers.

The importance of the produce wholesaling function in Philadelphia may be further emphasized by the fact that an estimated 15 to 17 hundred people are directly employed in this operation, an estimate which does not include any of the workers engaged in providing transportation and other services connected with wholesale distribution.[9]

FACILITIES

There are five wholesale markets in Philadelphia, other than chain store warehouses, which are important in the handling of fresh fruits and vegetables. These include the Produce Terminals of the Pennsylvania, the Baltimore & Ohio, and the Reading Railroads; the piers; the Dock Street Market; and the Callowhill Street Market. Water receipts of fresh fruits and vegetables arriving at the piers will be excluded from consideration in the present study; and the Callowhill Street Market, although separate and distinct from the Dock Street Market, is to be understood as included in any reference to the latter.

Primary Central Market

The Pennsylvania Railroad Produce Terminal on Oregon Avenue, together with those of the Baltimore & Ohio and the Reading Railroads approximately one-half mile north on Delaware Avenue, may be considered the primary central market for fruits and vegetables in Philadelphia. These two markets, which have been operating for the last 25 years offer facilities for handling and selling only produce received by rail. Both auction and private sales are carried on in this market, the principal purchasers being dealers from the Dock Street Market, chain stores, and buyers from out-of-town.

Secondary Central Market

Much more picturesque and historically more important is the Dock Street Market, the secondary central market of Philadelphia. Here, dealers operate in a number of one- to four-story buildings many of which are 100 or more years old. From Colonial times up to the Civil War, housewives bought meat, fish, butter, eggs, and vegetables on Dock Street directly from farmers and merchants, and, although the clientele has changed since that date, there have been few alterations in the physical layout of the

[4]Department of Agriculture, Market News Service, Fruit and Vegetable Division, **Unloads of Fresh Fruits and Vegetables at Philadelphia, 1951**, p. 1.

[5]Interview with Mr. Fred Logan, carlot dealer in fruits, Fruit Trade Building, March 14, 1952.

[6]U. S. Department of Agriculture, Market News Service, Fruit and Vegetable Division, **op. cit.**

[7]Interview with Mr. Fred Logan, **loc. cit.**

[8]U. S. Department of Agriculture, Market News Service, Fruit and Vegetable Division, **op. cit.**

[9]Interview with Mr. Fred Logan, **loc. cit.**

market or in the buildings housing the resident firms. However, the volume of produce moving through the market daily has increased many times.

Within this market, there are a total of 110 dealers in fruits and vegetables, the majority handling a full general line. In 1951, there was approximately 33.5 thousand carlot equivalents of perishable produce, valued at approximately $70.5 million, hauled into the Dock Street Market area.[10] Since none of the fruit and vegetable markets in this area are served by direct rail connections, all supplies must be delivered by trucks, which are owned by the dealers themselves, by contract haulers, or by farmers. As noted above, a large part of the merchandise handled by this market is obtained from the rail centers. The remainder comes directly into the Market district from nearby or distant producing areas by truck. This is particularly true during the summer months when there is an abundance of locally grown vegetables. Farmers then sell their produce to these wholesale stores in the market area and/or direct to local or out-of-town buyers. Many nearby farmers also deliver their produce to dealers in the Dock Street area for sale on commission.

The Dock Street Market area is the only market in Philadelphia where buyers may obtain a complete line of fresh fruits and vegetables. In all other market areas in Philadelphia the varieties of perishable produce handled are limited. Although the designated hours of trading are from 3:00 A.M. to 6:00 A.M. they are not rigidly followed and for this reason buyers may be found in the market from late evening until noon of the following day. Representative buyers include not only those from the metropolitan area, but also those from cities and towns as far distant as Scranton, Wilkes-Barre, and Hazleton. Numerous buying brokers with headquarters in Philadelphia purchase large lots of fruits and vegetables for shipment to cities and towns outside of the suburban area. In fact, these dealers represent accounts in states as distant as Ohio, West Virginia and Florida.

Only a small fraction of the fruits and vegetables passing through these wholesale stores is delivered to the buyer's place of business by the wholesale dealers. Most of it is picked up at the market by trucks owned or leased by the buyer. Deliveries of home-grown produce are effected in the same manner as those from wholesale stores, namely by buyers' trucks.

DEFICIENCIES

Split Market. From this brief description of the Philadelphia Market, certain limitations and deficiencies seem obvious. Some of the more important may be discussed with a view to proposing corrective solutions. It has been mentioned that the wholesale fruit and vegetable market area in Philadelphia grew up in a piecemeal fashion without the aid of any planning whatsoever. This was not the fault of any one individual or group, although the divers interests including wholesalers, farmers, railroads, and the city government did not seek to coordinate their activities for the benefit of all concerned whenever new facilities were added. This resulted in the "split market" prevailing in Philadelphia, which is conducive to an unnecessarily large amount of inefficient and uneconomic handling of perishable produce. A decentralized market such as this necessitates excessive cross-hauling, thus increasing the cost of fresh fruits and vegetables to the ultimate consumer. Additional expenses are incurred because of excessive deterioration of produce, and the use of a greater number of trucks required by larger number of centers and the longer selling period. Moreover, in a split market, buyers find it difficult to compare prices and quality, in that distance between sellers impairs rapid price adjustment which would follow from facile comparisons.

[10]Interview with Mr. Fred Logan, **loc. cit.**

Lack of Space and Poor Arrangement of Available Space in Buildings.

The majority of the wholesale dealers in fresh fruits and vegetables in the Dock Street Market area occupy stores in which usable floor space is inadequate for present-day operations. None of the buildings was designed for the efficient handling of bulky and heavy perishable products. Little or no use is made of modern materials-handling equipment, even though none of the stores has platforms which can be used for the receipt or delivery of produce. All goods must be lowered from truck to sidewalk level, and when deliveries are made this handling process is reversed.

The installation of refrigerated and temperature-controlled rooms has taken valuable first floor space which might otherwise be used for display and sales purposes. Thus, displays are frequently set up on the sidewalks or even in the gutter. Further congestion results because only a few of the stores have usable rear entrances and consequently all goods must be received and delivered through the front door.

Lack of Rail Connections to Wholesale Stores in Dock Street Market Area.

None of the wholesale fruit and vegetable stores in the Dock Street Market has direct rail connections. Hence, produce arriving in Philadelphia by rail must be delivered to stores by truck. Terminal yard facilities in use are as much as four miles distant.

The routes traversed by these trucks between delivery yards and stores are congested with heavy traffic. The excess distance and congestion cause loss of time during which produce is exposed to all sorts of weather conditions. Exposure and delay take their toll in deteriorated merchandise. Additionally, the remoteness from the Market of the locations where delivery must be taken from cars necessitates the employment of more labor and supervision than would be required if delivery could be taken nearer the wholesale stores. The chances of pilferage and broken packages are also greater because of this distance factor.

Insufficient Width of Streets and Inadequate Parking Areas.

Most of the Dock Street area is served by streets entirely too narrow to accommodate present-day traffic. Large numbers of pick-up and delivery trucks of all sizes congest the entire district. When trailers are unable to back into stores and must park parallel to the curb, an almost impossible traffic situation develops. Very few public parking lots are available in or near the Market area. Moreover, since the passenger vehicles of dealers and buyers are commonly parked on streets in the area, further congestion is evident.

Presence of Nonmarket Traffic.

Congested traffic conditions prevailing in the market district are aggravated by the presence of individuals having no direct business in the district. Many of these motorists pass through the market district because of the close proximity of this location to the downtown retail and financial districts of Philadelphia. Violation of parking regulations on the streets of the market district as well as on other narrow streets of downtown Philadelphia not only increases the traffic congestion, but adds literally several hours to the time required to move loads of produce to or from the district.

SUGGESTIONS FOR IMPROVEMENT

In view of the existing deficiencies in the Philadelphia produce market, it is apparent that improvements eventually must be made if Philadelphia is to continue as the leading fruit and vegetable distribution center of the eastern seaboard south of New York City. Several factors for consideration in planning improvements may now be discussed.

Factors to be Considered in Selecting a New Market Site.

The magnitude and complexity of any undertaking to improve these present conditions may be readily understood. It appears impossible to correct the major

defects if the jobbing market is to stay in or near its present location on Dock Street. It is, therefore, necessary to consider plans for relocation somewhere outside the congested central area of the city, (1) where railroads and highways could better serve the market, and (2) where the site would be convenient to buyers, sellers, and dealers alike. Agreement on such a site is not deemed to be a minor undertaking when all of the involved interests are considered.

The ideal location for a new market as far as convenience to local buyers is concerned would be a site where the average distance from these buyers' establishments to the market would be least. Buyers from beyond the metropolitan area who purchase in the wholesale markets of Philadelphia use a number of different routes to enter the city. For out-of-town buyers, the avoidance of congestion is of more importance than a few additional miles of high-speed travel.

Even though the volume of fruit and vegetable receipts coming into Philadelphia by truck exceeded that arriving by rail, it is imperative that the site selected should be on or near a railroad so that spur tracks can be brought into the area. Team track facilities where delivery could be made directly from railroad car door to motor truck would be mandatory in any new market.

The new market would have to be well-situated with respect to highways convenient to buyers and sellers alike. Consideration of the needs both of local farmers and of distant growers would be required, regardless of whether they haul the produce to market themselves or contract for its delivery. The centralized market facility, by eliminating much extra cross-hauling, would decrease congestion, and, at the same time would reduce costs by decreasing the total number of trucks required. In considering possible sites for locating such a market, an area in which nonmarket traffic would be negligible would also be essential.

Along with considerations already brought forward, the question of land valuation is an important factor in selection. The site selected should be large enough to provide space for present needs as well as for future expansion. Inasmuch as the cost of land and its preparation for use must be written-off over a long period of time, for the most efficient financing and utilization such a site should be located in an area of low land values, if possible.

Philadelphia is indeed fortunate in that there is available a site that has been surveyed and which seems to satisfy many of the foregoing considerations. This seven-block area is located on the north side of Oregon Avenue between the terminal yards of the Pennsylvania Railroad and those of the Baltimore & Ohio and Reading Company farther north. Here it has been proposed to construct a new $6.5 million market facility which, it is estimated, would result in a 30% saving in prices paid by retailers for produce with ultimate savings to consumers.[11]

Facilities Proposed for a New Market.

A new market should provide facilities for all types of dealers in fruit and vegetables, including chain store operators. Additional facilities in a new market, thus, would include farmers' and truckers' sheds, rail connections to stores and team tracks, offices for the market superintendent, brokers and others, buildings for related services, parking space, and streets. Not only should there be sufficient area to provide these facilities, but space should be set aside for future expansion, since it is most probable that, as wholesale operations increase, there would also be a need for space for such related operations as a public refrigerated warehouse, a public garage, and service station.

Financing, Construction, and Managing a New Market.

The financing, constructing, and managing of a new wholesale market in

[11]Custis, Emerson C., "Proposed Bill Would Pave Way For Huge Produce Market Here," **Philadelphia Bulletin,** Sunday Edition, January 22, 1950, p. 13.

Philadelphia would be an enormous undertaking and could materialize only after very thorough analysis and study of all the factors involved. Wholesale produce markets in other cities have been constructed, financed, and managed by private concerns, governmental agencies, cooperatives, nonprofit public benefit market corporations, and private nonprofit or limited-profit corporations.

Some privately owned and operated firms have functioned successfully, as have others controlled by governmental units, while some have been weak in various phases of management and operation. Privately owned markets, operated solely as profit-making institutions, often tend to become virtual monopolies. City-controlled markets are likely to neglect those from outside the city or even to fail to provide market facilities, sometimes as a result of political maneuvering. In various local farm areas cooperatively-owned and controlled markets have met with success, but this type of management and ownership probably would not be desirable for Philadelphia.

Under the nonprofit public benefit market corporation, created under legislative enactment, a board of directors composed of all interests, and including representatives of the municipal government, would be elected. Representation of this type would be conducive to the efficient functioning of a new market. This type of corporation embodies several desirable features not found in most types of market management. As presented by the United States Department of Agriculture,

"A. non-profit public benefit market corporation

"1. Permits all interested groups to participate in the building, financing, and management of the market.

"2. Definitely is a nonprofit marketing corporation because when properly created rents cannot exceed the amount needed to pay the cost of operations, amortize the original investment, and maintain a limited reserve for contingencies.

"3. Offers opportunities of financing that cannot be obtained under other types of management.

"4. Establishes a continuing organization.

"5. Gives some representation on the board of directors to governmental agencies specifically interested in the market.

"6. Does not place a burden on the taxpayers of the community in which it is established.

"7. Can be set up to function like a private corporation and pay taxes to the community where located." [12]

If it were impracticable to organize a nonprofit public corporation, a private nonprofit or limited-profit market corporation could be organized. This form of market organization may function more effectively than markets owned and operated by such private interests as railroads or markets managed exclusively by some form of governmental agency. Such organizations attempt to include in their method of operation as many features of their public counterpart as is deemed practicable. The board of directors in this type of corporation should include representatives of all the various dealers, producers, consumers, retailers and governmental agencies. The board should have various responsibilities and powers including the power to issue stocks and bonds, to lease facilities and assess rentals, to appoint a competent manager, and to exercise final jurisdiction and complete authority in all matters pertaining to the construction, financing and operation of the market.

SUMMARY AND CONCLUSIONS

The import of the Philadelphia wholesale produce market has been described, showing the defects in its organization and some of the possible solutions to its present problems. It was shown that the Market deals not only with the Philadelphia area but also serves as the dis-

[12] U. S. Department of Agriculture, Production and Marketing Administration, Market Facilities Branch, **The Wholesale Market for Fruits, Vegetables, Meat and Meat Products, Poultry, Eggs and Other Produce at Houston, Texas,** Washington, D. C., June, 1948.

tribution center for much of the Middle Atlantic area.

The principal deficiencies which have become apparent over the years include: split market, lack of space and poor arrangement of available space in buildings in the Dock Street Market area, lack of rail connections to wholesale stores in this area, congestion resulting from insufficient width of streets, lack of adequate parking areas, and presence of nonmarket traffic. Such deficiencies result in increased labor costs and trucking expense, increased loss from deterioration, and inability to use labor-saving equipment, all of which are reflected in the high prices paid by the ultimate consumer for fresh fruit and vegetables bought at retail.

In view of these factors the need for the development of a new market seems apparent. Such new market should be located in an area where rails and highways may serve it adequately while remaining as close to the geographical center of population and retail distribution as possible. The needs of both local and out-of-town buyers and sellers must be considered and provided for in the selection of such market site.

It may be concluded that the new market should be organized and operated either by a nonprofit public benefit market corporation, or a private nonprofit or limited-profit market corporation. Such operation may be financed either by bonds or notes, and should include participation by all interested parties. The real value of such development is apparent from the fact that minimum savings in the costs of cartage, porterage, spoilage, and deterioration are estimated to exceed $1.35 million per year,[13] a conservative figure based on 1% of total dollar volume of 1951 receipts. All interests including dealers, buyers, sellers, farmers, shippers, the City of Philadelphia, retailers, consumers, and various other individuals and groups would benefit by the construction of a new wholesale produce market in Philadelphia.

[13]Interview with Mr. Fred Logan, **loc. cit.**

Business Prospects for 1953

by BUFORD BRANDIS*

Ed. Note: The following paper was the keynote address at the School of Business Alumni Conference, November 21, 1952.

BUSINESS in 1952 has been very good, indeed. This Autumn industrial production reached a new postwar high. Employment and personal income figures recorded new all-time highs.

These evidences of prosperity appeared in the midst of great uncertainties both at home and abroad. The domestic uncertainty has now been reduced by the passage of time and, hence, of Election Day. Major shifts in the direction of events both at home and abroad impend. There is a good deal of evidence that the Korean War in Asia and the NATO effort in Europe are about to undergo major changes, though precisely what form they will take is still unclear. The recent Communist Party Congress in Moscow also points to change in the current world situation.

What, then, does 1952 hold for American business?

Business conditions in the United States in 1953 may be appraised in several different ways. One useful method is to look at probable developments in four major expenditure categories: government, business, consumer, and foreign.

GOVERNMENT EXPENDITURES

It seems likely that Federal expenditures will level off and begin to decline in the last half of 1953, while state and local expenditures increase. The Federal Government's budget is dominated by defense expenditures. Secretary of Defense Lovett has announced that the Defense Department will request smaller appropriations for fiscal 1954, the year beginning July 1, 1953, than in the current fiscal year. Of course, expenditures will be affected by past appropriations to a considerable extent.

Under the law, President Truman will have to send the 1954 budget to Congress no later than January 18. President-Elect Eisenhower has pledged a reduction in expenditures of the Defense Department, and new defense appropriations finally enacted will be those decided upon by the new administration.

In early November, 1952 those people in Washington who are closest to the problem anticipated that the cash budget would show a deficit of about $3 billion in the current fiscal year.

It seems possible that the Korean war will not be going on throughout fiscal 1954. The election results reflected in part a protest against present foreign policy.

There is always the possibility that the war will expand into a bigger one but this seems, at the moment, less likely than that it will come to an end. The recent Moscow Congress of the Communist Party, as well as other developments, lend strong support to the belief that the Russian Government is preparing for a continuation of the cold war rather than for an expansion of military operations.

Apart from defense expenditures and foreign aid grants—to be discussed later—there may well be some small additional reductions in other Federal expenditures. However, a large proportion of these remaining types of Federal expenditures are hardly susceptible to immediate reductions of any great size. Interest on the national debt, for example, is now in excess of $6 billion annually.

The great backlog of needs for highways, schools, and other public works almost certainly means larger expenditures by state and local governments during the next year. On November 4, $1.3 billion of new bond issues by state and local governments were approved by the voters. On balance, total government expenditures, federal, state, and local seem likely to be no higher in 1953 than in 1952 and may be some lower.

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BUSINESS EXPENDITURES

Expenditures by business firms for new plant and equipment and inventory will have a lot to do with the level of business activity during 1953. Because of the declining price level — wholesale prices have now been declining for 20 months— continuation of recent conservative inventory policy by purchasing agents is a good bet. On the other hand, indications are that, at current levels of activity, inventories have been worked down near practicable minimums. Some lengthening of commitments has recently been noted by the National Association of Purchasing Agents. Probably, therefore, inventory policy will be a neutral force in 1953.

Expenditures for new plant and equipment will remain at very high levels in 1953 according to current indications. *Business Week* magazine for November 1 reported the results of the McGraw-Hill survey of business intentions as to capital spending in 1953. Manufacturing companies indicated that they expect to spend something less in 1953 on expansion of plant than in 1952, but utility companies and non-manufacturing companies expect to spend more. Total capital spending indicated for 1953 was only $1 billion below that for 1952 and slightly above 1951 levels. If these indications prove out, business spending in 1953 will be a very strong support under the boom.

CONSUMER SPENDING

Consumers' purchases, like those of business purchasing agents, are indicating that the excessive inventories accumulated during the early months of the Korean war have been worked off. Latest retail sales figures were 7 percent higher than a year earlier. Revived demand in the consumer durables field has been quite impressive. The market for household appliances has strengthened and the automobile producers are anticipating a large output next year although competition between makes will probably be stronger than at any time since before World War II. The textile industry has recovered a good deal of the ground lost during the recent slump in consumer nondurables.

Residential housing construction will almost certainly be lower in 1953 than in 1952, but if the decline is no more than 10. percent or so, as indicated, there will still be about 900,000 new housing starts in 1953, a very good figure. Commercial construction, deferred because of structural steel shortages, is expected to increase next year.

The housing shortage is already pretty much a thing of the past. Nevertheless, the increase in the size of the average family in recent years means that a large number of small houses, the two-bedroom variety, will have a high rate of obsolescence. The potential for residential construction is still quite good despite the fact that we are now coming into a period in which the family formation rate will decline because of the low birth rates of the 1930's.

Employment and consumer incomes are currently at record levels. Of course, personal taxes are at an all-time high as well. There may well be some reductions in these taxes during 1953 and such action would stimulate consumer spending.

FOREIGN TRADE

Since World War II, purchases of American goods by foreigners—exports —have been at high levels. Indications are now that exports have passed their peak and are likely to decline in 1953. European production is now higher than prewar. It seems unlikely that foreign aid appropriations will be continued for long at current levels and reductions therein almost certainly mean temporary reductions in American export business. However, the importance of the export prop under current levels of business activity can easily be exaggerated. It seems quite likely, for example, that a reduction of foreign aid-financed exports of $1 billion accompanied by a reduction of $1 billion in personal taxes paid by American consumers will leave the overall demand about the same though, of course, the sales of some products would

be benefited while the sales of others would be reduced thereby.

A BIT OF HISTORY

It is quite true that the current prosperity phase of the cycle has continued for an abnormally long time but it is also true that this phase was preceded by (1) an unusually long and destructive war, and (2) by an unusually long and deep depression.

Though history never repeats itself, economic history does throw light on our 1953 prospects. Immediately prior to the beginning of World War I in 1914, the United States and much of the world seemed to be entering a depression. The war boom, however, cut this depression short and the boom continued with short interruptions until 1929—a period of 15 years. In the current cycle we had the first shakeout in 1949. It is significant in this regard that in the spring of 1950 —before Korea—the economy gave indications of turning back up from the 1949 recession. Korea, of course, accelerated this upturn and exaggerated its effects. Actually, the Korean effect was pretty well played out by the late winter of 1951 and, for some 20 months now, wholesale prices have been drifting slowly downward.

After 1921, there was a seven year boom interrupted by a couple of minor dips. If the parallel holds, we might expect a minor recession in 1953 to be followed by several years of prosperity with a serious test of the economy about 1956 or 1957.

World War I had very little postwar effect in the United States in the way of deferred demand, but World War II created vast backlogs of demand. Automobile production, for example, in 1917 and 1918 totaled 2.7 million cars; less than 300,000 cars were produced between the end of 1941 and the beginning of 1946. Between 1914 and 1929 the money supply per capita (demand deposits plus currency in circulation) rose 83 percent. From 1939-52 it increased more than 200 percent.

In addition, at the close of World War I, we reduced annual immigration rates by half. Before that war immigration was adding to our population a million persons each year. Furthermore, in the 1920's we entered a period of lower birth rates than prewar. Since 1945, however, we have experienced a tremendous population increase through a higher birth rate and through some increase in immigration as well.

Not only that, but the technological developments of World War II and the postwar years have been much greater in investment potential than was true of the earlier period. These technological developments have by no means been fully exploited in the way in which the automobile market had been exploited by 1929.

Since 1929 there has been an important change in the public attitude toward Federal spending on a large scale. This change in morals has been revolutionary, and holds great inflationary potentials for the future. Furthermore—and I think this even more important — income tax rates are now so high that the simple, and quite conservative, device of reducing taxes is not a potent weapon in government's kit for fighting recession, if it appears.

Beyond this, I think it is true that the export market is relatively much less important to our economy today than it was in the 1920's, and that, if Europe has to reduce its dollar imports because of a cessation of foreign aid, this will be a relatively minor deflationary influence on the American economy.

It is true that Russia's foreign policy has been a major expansionist factor in the American economy since 1945, and that indications are that the influence of this factor may lessen in the coming year. But it is also true that our most sustained and vigorous prosperities have come in eras of apparent peace. I believe that an apparent stabilization of the world situation accompanied by an apparent end of price inflation in this country could so restore confidence, particularly coupled with the change to a more

businesslike administration in Washington, as to stimulate a very extensive additional boom with high levels of employment, income, and output. This stabilization could become apparent by the end of 1953 and, coupled with tax cuts of substantial proportion, lead to a sounder prosperity than we have seen in many years.

The recession of 1949 was not nearly so severe as that of 1921, and this is quite a significant fact. I think it is attributable to two things: the boom pressures in the economy now are stronger than in the 1920's and, in addition, business management is much more sophisticated.

We have not yet had in the current cycle a sustained period of prosperity at a reasonably stable level of prices such as we had from 1922 to 1929. We were, perhaps, in 1950 about to begin such a period of high activity at a stable price level, but this was postponed by the Korean inflation—which was largely psychological and only to a relatively minor degree fiscal and monetary in its origin.

It should also be noted that a depression psychosis has overhung, and still overhangs, the current boom. This is in sharp contrast to the 1920's and has been a powerful psychological brake on speculative expansion.

The coming year, then, seems likely to be one of relative calm in the economic sphere. The feverish fires of inflation have apparently been damped down by increasing productivity on the one hand, and successful application of an anti-inflationary policy by the Federal Reserve authorities on the other. Employment and production are at record levels and the inventory maladjustments resulting from the Korean scare-buying have run their course. There is much reason to believe that the economy is basically sound.

Ed. Note: Other features of the program for the School of Business and Public Administration Alumni Association's Conference included three concurrent panels. The following papers were presented:

ACCOUNTING PANEL

The Outlook for 'LIFO' Inventories
John S. Schuman, '35, Certified Public Accountant and a partner of Haskins and Sells, Philadelphia

What Banks Are Looking for in Borrowers' Financial Statements
A. L. Raffetto, '34, Vice President, Philadelphia National Bank

Current Problems in Defense Contract Accounting
Major David L. Robbins, '28, Staff Auditor, Industrial Division, Headquarters Auditor General, United States Air Force

MARKETING PANEL

Marketing Problems in an Election Year
Myron S. Heidingsfield, Ph.D., Chairman, Marketing Department, Temple University School of Business and Public Administration

Advertising Problems in an Election Year
Wesley Ecoff, '37, President, Ecoff and James, Philadelphia

Retailing Problems in an Election Year
Morton S. Glazer, '49, Buyer, John Wanamaker.

MANAGEMENT PANEL

The Problems of the White Collar Employer
Charles W. Books, '33, Personnel Officer, Pennsylvania Company for Banking and Trusts.

Current Trends in Collective Bargaining
Irving K. Kessler, '39, Vice President, John B. Stetson Co., Philadelphia.

The Influence of Philadelphia in Presidential Elections

by WILLIAM J. McKENNA*

The overwhelming victory of the Democratic Party in the Philadelphia Presidential election of 1952 was a sharp reversal of the city's political behavior in presidential elections since 1896. This reversal seems to have resulted from the ending of the life cycle of the Republican Party which had long dominated Philadelphia. The City has conformed to the state and national trend in Presidential elections in most instances since 1896. Since 1932, however, it has followed the political pattern of the nation in Presidential elections, keeping pace with the Democratic trend in other major cities. Although it has not always reflected national trends as adequately as have other major cities, its 1952 behavior must be accepted as an isolated case.

IN the Presidential election of November 4, 1952, Philadelphia gave the democratic candidate, Adlai E. Stevenson, an explosive majority of 160,247, 58.5% of the total vote cast. This majority was not only contrary to the trends in the major cities of the nation[1] but it was also a sharp reversal of the trend existing in the Philadelphia Presidential elections since 1936. The majority which Philadelphia had given the Democratic Party in Presidential elections had declined from a high of 209,876 (62.1%) in 1936 to only 6,737 (50.4%) in 1948 (See Table 1)[2]

At first glance this record in 1952 may seem to indicate that Philadelphia has become a political iconoclast. The explanation, however, runs deeper than that. The political conduct of Philadelphia is the result of a combination of local factors. The local Republican Party had been defeated in the mayoralty election of 1951 by 124,700 votes.[3] This seemed to constitute a repudiation of the Republican leadership which had dominated its politics since the 1880's. The life cycle of the old Republican machine was thought by some to have ended. The mayoralty defeat, however, was regarded by the Republican machine of Philadelphia as a "flash-in-the pan" and little was done by the leaders of the organization to overcome the criticisms it had borne. The newly formed Democratic organization, on the other hand, provided the city with new leadership from top to bottom. In November, 1952, the great majority of the Philadelphia voters cast a Democratic ballot which might be considered a further repudiation of the old

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[1]In the 106 cities with a population of 100,000 or more, there has been an overwhelming concentration of Democratic cities since 1932. The figures are as follows:

Year	Cities Voting Democratic	Cities Voting Republican
1932	91	15
1936	104	2
1940	97	9
1944	96	10
1948	85	15
1952	Decrease	Increase

[2]Third Party vote has not been a decisive factor in Presidential elections in Philadelphia. Excluding the 1912 and 1924 campaigns, no third party has received more than approximately 5.5% of the local vote in Presidential elections. The Progressive Party in 1948 received only 20,745, or 2.4% of the total vote cast. Third parties in New York City, on the other hand, have played a decisive role in several Presidential elections, including the Presidential election of 1948 when Henry A. Wallace secured 13.5% of the total vote.

[3]This in itself was a political revolution. It represented the first time Philadelphia had elected an entire Democratic mayoralty slate since 1881. Philadelphia, however, had already become an increasing Democratic city in senatorial, gubernatorial, presidential, and congressional elections since 1932. (See W. J. McKenna, "Philadelphia: A Two Party City," **Economics and Business Bulletin**, Vol. 3, No. 4, June 1951, Temple University, Philadelphia, Pa.)

TABLE 1

Division of the Philadelphia Vote for the Republican and Democratic Presidential Candidates, 1936-1952

Year	Republican	Democratic	Democratic Majority	Democratic Percentage of Two Party Vote
1936	329,881	539,757	209,876	62.1
1940	354,878	532,149	177,271	60.0
1944	346,380	496,367	149,987	58.9
1948	425,962	432,699	6,737	50.4
1952	390,724	551,221	160,247[1]	58.5

Source: **The Pennsylvania State Manual.** Data for 1952 from unofficial sources.

[1]This figure does not include soldier and other absentee ballots, nor do any of the subsequent tabular presentations for 1952.

Republican leadership as a result of the failure to develop a new and vigorously lead organization.[4] In the opinion of this writer, the chance of future victories for the Repulican party in Philadelphia will depend, at least in part, upon its reorganization. Even then, it will take many years to regain its former force and vitality.[5] A new political organization is not built overnight. Confidence once destroyed is not easily restored.[6]

PHILADELPHIA AND OTHER CITIES IN PRESIDENTIAL ELECTIONS 1932-1952

Philadelphia has largely conformed to the trend evident in other major cities of the United States in Presidential elections since 1932. A comparison of Philadelphia with eleven major cities in the United States since 1932 reveals that Philadelphia has adhered to the Democratic pattern, even though to a lesser extent, from 1932 to 1948. Its action in 1952 was in conflict with the trend. (See Table 2.) All of the cities studied revealed a percentage in Presidential elections in excess of the national vote for the victorious Democratic Party from 1932 to 1948. In the 1952 election, however, the percentage of the Democratic vote decreased in all of these cities except Philadelphia, whose percentage increased from 49.2% in 1948 to 58.5% in 1952.

The total vote cast in Presidential elections in the large cities is extremely important in determining the final political complexion of the State. In several instances in recent years an overwhelming majority of Democratic votes in these cities has been a deciding factor in swinging whole states into the Democratic column. This was true of Pennsylvania in 1944 when the Philadelphia Democratic majority of 149,987 resulted in a State Democratic majority of 105,425. Similar situations existed in New York State, Illinois, and Missouri in the 1932-1948 period. (See Tables 3 and 4.) In addition, the high Democratic vote in these

[4]In the 1952 Presidential election in Philadelphia, the Republican vote had increased from the 324,283 cast for the Rev. Daniel A. Poling in the mayoralty election to 390,724 (a 12% increase). The Democratic vote, however, increased from 448,983 in the same mayoralty election to 551,221 (a 28% increase). The Republican magic had ended. This is true despite the fact that the 1952 registration included 667,931 Republicans and only 375,538 Democrats).

[5]The situation in Philadelphia has been paralleled in other cities in the United States in the past. The ends of the life cycles of the Republican machines of Pittsburgh, Pennsylvania, Providence, Rhode Island, Boston, Massachusetts, Los Angeles and San Francisco, California, Chicago, Illinois, Detroit, Michigan, all had been followed by a long tenure of the Democratic Party. Philadelphia so far seems to be adding to this pattern.

[6]Editorials dealing with the present position of the Republican Party in Philadelphia can be found in the November 6, 1952 issue of the **Philadelphia Inquirer** and the November 12, 1952 issue of the **Philadelphia Evening Bulletin.**

TABLE 2

Democratic Percentage of Total Democratic and Republican Presidential Vote for the Years 1932-1952

City	1932	1936	1940	1944	1948[1]	1952[2]
Philadelphia	44.0	62.1	60.2	68.9	50.4	58.5
New York	71.4	75.4	61.2	61.6	51.1[3]	55.0
Chicago (Cook County)	59.0	66.9	58.5	61.4	58.6	49.6
Pittsburgh	58.1	70.7	61.6	60.8	60.1	56.1
Boston	69.7	69.9	63.3	62.3	69.2	60.0
Baltimore	67.0	68.3	64.0	59.2	54.8	51.6
Cleveland	58.7	76.5	69.9	67.9	61.8	49.0
Detroit	60.0	68.9	63.0	65.0	59.6	59.2
St. Louis	64.7	67.0	58.1	60.4	64.3	62.0
Milwaukee	77.7	82.1	64.1	61.7	59.4	decreased
Los Angeles	63.0	71.3	61.1	59.6	48.9	42.0
San Francisco	67.3	75.0	60.3	60.9	48.0	47.7
United States	59.1	62.5	55.0	53.9	49.9	44.6

Source: **Gallup's Political Almanac, 1952;** Percentages for 1952 computed from unofficial data.

[1]The 1948 Wallace vote reduced the percentages in all these cities except Chicago. (Wallace was not on the ballot in Illinois.)

[2]Preliminary and unofficial percentages.

[3]The New York City Wallace vote was approximately 13.5%. This decreased the usual Democratic vote.

major cities was instrumental in building up the Democratic majority in the state involved. (See Table 3.) These cities also generally ran ahead of the state in the percentage of total vote cast for the winning party in Presidential elections. (See Table 5.)

Conformance of Major Cities with the State and National Vote in Presidential Elections

Philadelphia and Pennsylvania

A comparison of the majority vote, and the percentage of total vote cast by

TABLE 3

Republican or Democratic Majority in Presidential Elections in Selected Cities and States, 1896-1952

City and State	DEMOCRATIC OR REPUBLICAN MAJORITY IN PRESIDENTIAL ELECTIONS									
	1896	1916	1920	1928	1932	1936	1940	1944	1948	1952
Philadelphia	113,139R	103,363R	217,675R	143,747R	70,766R	209,876D	177,271D	149,987D	6,737D	160,247D
Pennsylvania	301,175R	182,039R	714,373R	987,796R	157,796R	663,787D	281,187D	105,425D	159,771R	200,867R
New York City	61,420R	39,422D	440,688R	453,817D	741,022D	1,136,551D	401,470D	791,213D[2]	488,257D[1]	362,674D
New York	268,478R	109,640R	1,089,929R	103,381R	596,996D	837,628D	224,440D	509,049D	80,959R	851,032R
Baltimore	21,106R	20,421D	37,778R	9,076R	8,175D	113,001D	87,351D	51,000D	23,718D	12,293D
Maryland	32,232R	57,718D	55,491R	77,853R	130,300D	158,177D	115,012D	22,451D	8,293R	103,213R
Chicago (Cook Co.)	69,677R	56,251R	437,698R	95,780R	229,085D	551,858D	229,687D	350,708D	200,836D	16,637R[3]
Illinois	142,625R	202,320R	886,085R	455,324R	449,548D	712,606D	102,694D	140,165D	33,612D	470,000R
St. Louis	15,617R	9,734R	57,633R	14,427D	101,890D	32,176D	65,173D	63,770D	100,009D	90,390D
Missouri	59,177D	28,693D	152,553R	171,518R	480,643D	413,152D	87,467D	46,181D	262,276D	22,501R
Los Angeles (Co.)	824R	21,484R	122,456R	303,581R	180,638D	399,950D	248,452D	219,311D	8,458D	
California	23,613R	3,773D	395,801R	547,958R	476,255D	930,405D	526,199D	475,599D	17,865D	630,000R

Source: Robinson, Edgar E., **The Presidential Vote for 1896-1932.** Stanford University Press, Stanford University, California 1937; Robinson, Edgar E., **They voted for Roosevelt,** Stanford University Press, 1947. 1948 data, **The World Almanac,** The New York World-Telegram and Sun, N. Y., p. 735 ff. The 1952 data are unofficial.

[1]Includes 193,166 Liberal Party votes for Truman-Barkley.

[2]Includes 388,591 of American Labor Party and 306,151 of Liberal Party votes for Roosevelt.

[3]Chicago proper gave Stevenson 995,360 and Eisenhower 836,899 votes in 1952.

TABLE 4

Number of Times City Vote Majority Decided State Presidential Contest, Selected Years, 1896-1952

City	Republican	Democratic	Years
Philadelphia	0	1	1944
New York City	0	4	1932-36, 40-44
Chicago (Cook County)	0	3	1940-44-48
Baltimore	0	1	1944
St. Louis	0	1	1944
Los Angeles	0	0	

Source: Ibid.

Philadelphia and Pennsylvania in Presidential elections since 1896 reveals a high degree of conformance of Philadelphia with the state voting trend. In the 15 Presidential elections held from 1896 to 1952, Pennsylvania has gone Republican[7] 12 times and Democratic three times. During the same period Philadelphia voted Republican ten times and Democratic five times. This represents a high degree of conformance with the voting trend of Pennsylvania. (See Table 5.) It has also conformed to the national trend in eleven of the 15 Presidential elections from 1896 to 1952. (See Table 6.)

When compared with Pittsburgh, Philadelphia has had a better record of conforming to the state trend, but a poorer record in conforming to the national trend in Presidential elections since 1896. (See Table 7.) Philadelphia also compares favorably in this respect with other leading cities.

[7]In 1912 the State went Progressive and for purposes of Democratic-Republican comparison, the 1912 result is regarded as Republican.

TABLE 5

Percentages of Total Vote Cast Secured by the Democratic Party in Presidential Elections in Selected Cities and States, Selected Years, 1896-1952

City/State	1896	1916	1920	1928	1932	1936	1940	1944	1948	1952
Philadelphia	36.4	31.9	22.6	39.7	44.0	62.1	60.2	58.9	49.2	58.5
Pennsylvania	35.8	40.2	27.2	33.9	45.3	56.9	53.2	51.1	47.2	47.1
New York City	44.1	53.0	30.5	61.9	71.4	75.4	61.2	61.6	51.1	55.0
New York	38.7	44.5	26.9	47.4	54.1	53.9	51.5[1]	52.3[1]	45.4	43.8
Chicago[2] (Cook County)	40.7	46.5	23.7	46.9	57.1	64.1	55.5	58.0	54.5	49.6
Illinois	47.2	43.4	25.5	42.3	55.2	57.7	51.0	51.5	50.4	44.8
Baltimore	39.7	54.7	40.4	48.3	67.4	68.3	64.0	59.2	54.8	51.6
Maryland	41.7	52.8	42.2	42.3	61.5	62.3	58.3	51.9	48.4	44.2
St. Louis	43.3	46.9	39.5	52.2	64.7	67.0	58.1	60.4	64.3	62.0
Missouri	53.9	50.6	43.1	44.1	63.7	60.8	52.3	51.4	58.2	49.8
Los Angeles[3] (County)	48.7	45.7	23.8	29.0	59.7	67.9	58.9	57.1	50.3	42.0
California	41.1	46.6	24.3	34.2	58.4	67.0	57.5	56.5	47.8	43.5

Source: Bean, Louis H., **How to Predict Elections**, Alfred A. Knopf, New York, 1948, pp. 184-185. The 1952 percentages are computed from unofficial data.

[1]Includes votes cast by American Labor Party and Liberal Party.

[2]Chicago proper was more Democratic than Cook County.

[3]Los Angeles proper was more Democratic than Los Angeles County.

TABLE 6

Frequency of Democratic and Republican Vote, Conformance with State and National Trend in Presidential Elections in Selected Cities and States, 1896-1952

	Number of Times Voted, 1896-1952 Rep.	Dem.	Number of Times Conformed to Voting Trend of State	Number of Times Conformed to National Trend
Philadelphia	10	5	13	11
Pennsylvania	12	3	—	—
Pittsburgh	9	6	11	13
United States	8	7	—	—
New York City ...	4	11	9	11
New York	10	5	—	—
St. Louis	7	8	6	12
Missouri	6	9	—	—
Baltimore	6	9	12	13
Maryland	9	6	—	—
San Francisco ...	7	8	8	8
California	8	7	—	—

Source: **Ibid,** and Gallup, **op. cit.**

Other Major Cities and States:

A comparison of the voting record of selected cities and states, presented in Table 5, shows that the cities studied usually reported a larger percentage of Democratic vote than did the state. Additional evidence of this tendency is presented in Table 8 which shows that Boston, Cleveland, Detroit, and Milwaukee conformed to the general rule that the cities are more Democratic than the states of which they are part. These cities have also conformed, in recent years particularly, to the trend in their states and the United States as a whole. (See Table 9.)

TABLE 7

Percentage of Democratic Vote in Presidential Elections in Philadelphia, Pittsburgh, and Pennsylvania, 1896-1952

	1896	1900	1904	1908	1912	1916	1920	1924	1928	1932	1936	1940	1944	1948	1952[1]
Philadelphia	36.4	25.1	17.1	28.8	41.9	31.9	22.6	13.5	39.7	44.0	62.1	60.0	56.9	50.4	53.8
Pittsburgh	28.5	29.1	21.9	33.7	54.2	39.1	27.5	13.2	48.0	58.1	70.7	61.6	60.8	60.1	56.7
Pennsylvania	35.8	36.2	27.3	35.3	32.5	40.2	27.2	19.1	33.9	45.3	56.9	53.2	51.1	47.2	47.1

Source: **The Pennsylvania State Manual.** The 1952 percentages are computed from unofficial data.

[1]Not including soldier or other absentee ballots.

TABLE 8

Percentage of Total Vote Secured by the Democratic Party in Selected Cities and States, Selected Years, 1896-1952

City and State	1896	1900	1904	1908	1916	1920	1928	1932	1936	1940	1944	1948	1952
Boston								69.7	69.9	63.3	62.3	69.2	60.0
Mass.	27.5	39.7	39.1	36.9	48.0	28.9	50.0	52.1	55.1	53.4	52.9	54.9	45.6
Cleveland ..								58.7	76.5	69.9	67.9	61.8	50.0
Ohio	47.6	46.6	36.5	46.8	54.0	39.8	34.7	57.5	60.8	52.2	49.8	49.5	43.4
Detroit								60.0	68.9	63.0	65.0	59.6	59.2
Michigan ...	44.7	40.1	27.0	34.4	45.7	23.4	29.1	54.1	59.2	49.8	50.5	48.4	44.0
Milwaukee .								77.7	82.1	64.1	61.7	59.4	
Wisconsin ..	38.2	37.5	30.7	40.2	46.5	18.5	45.3	67.0	67.8	50.9	49.1	51.2	38.8
United States	47.3	46.8	40.0	45.5	51.7	36.1	41.2	59.1	62.5	55.0	53.8	49.4	55.4

Source: Bean, **op. cit.** and Gallup, **op. cit.** The 1952 percentages are computed from unofficial data

TABLE 9

Frequency of Democratic and Republican Presidential Vote Conformance with State and National Trend on Selected Cities and States 1932-1952

City and State	Number of Times Voted, 1932-1952		1932-1952 Trend of State Conformed to Voting Number of Times	Nation 1932-1952 Voting Trend of Conformed to Number of Times
	Rep.	Dem.		
United States	1	5	—	—
Boston	0	6	5	5
Massachusetts	1	5	—	—
Cleveland	1	5	5	6
Ohio	2	4	—	—
Detroit	0	6	3	5
Michigan	3	3	—	—
Milwaukee	0	6	4	5
Wisconsin	2	4	—	—
Philadelphia	1	5	3	5
Pennsylvania	3	3	—	—
New York City	0	6	4	5
New York	2	4	—	—
St. Louis	0	6	5	5
Missouri	1	5	—	—
Los Angeles	1	5	6	6
California	1	5	—	—
Baltimore	0	6	4	5
Maryland	2	4	—	—
Chicago (Cook Co.).	1	5	6	6
Illinois	1	5	—	—

Source: **Ibid.**

Philadelphia as a Presidential Election Barometer

Most of the major cities of the United States have been better barometers in Presidential elections than the traditional State of Maine. Eight of the fifteen presidential elections since 1896[8] have been Republican and seven Democratic. Maine, however, has never been Demo-

[8]Prior to 1896 Philadelphia consistently voted Republican in keeping with the voting record of Pennsylvania in the post-Civil War period.

TABLE 10

Frequency of Democratic and Republican Vote and Conformance with National Trend in Presidential Elections in Selected Cities, 1896-1952

	Number Times Voted 1896-1952		Number of Times Conformed to National Trend
	Rep.	Dem.	
United States	8	7	—
Maine	15	0	—
Philadelphia	5	10	11
New York City	4	11	11
Chicago (Cook Co.)	9	6	14
St. Louis	7	8	12
Baltimore	6	9	13
San Francisco	7	8	14
Los Angeles	10	5	14
Pittsburgh	9	6	13

Source: Robinson, op. cit.
The 1952 data are computed from unofficial sources.

TABLE 11

Division of the Philadelphia Vote for the Republican and Democratic Presidential Candidate from 1896-1948 Inclusive

Year	Republican	Democratic	Majority Rep.	Majority Dem.	Per Cent Democratic
1896	176,462	63,323	113,139		36.41
1900	173,657	58,179	115,478		25.09
1904	227,709	46,875	180,834		17.07
1908	185,263	75,310	109,953		
1912	91,994	66,308	[1]		41.89
1916	194,163	90,800	103,363		31.86
1920	307,826	90,151	217,675		22.65
1924	347,457	54,213	293,244		13.50
1928	420,320	276,573	143,747		39.69
1932	331,042	260,276	70,766		44.02
1936	329,881	539,757		209,876	62.07
1940	354,878	532,149		177,271	60.00
1944	346,380	496,367		149,987	58.90
1948	425,962	432,699		6,737	50.39
1952	390,724	551,221		160,247	58.50

Source: See Wm. J. McKenna, **op. cit.**, p. 14

[1]Theodore Roosevelt secured 68,528 "Washington Party" and 6,908 "Bull Moose Party" votes in Philadelphia in 1912 when a total of 93,438 non-Democratic and non-Republican votes were cast. Taft secured the regular Republican vote.

cratic in any presidential election in that period. Thus, while Philadelphia has been a better barometer than Maine, it has not been as sensitive to national trends as have other major cities in the United States. (See Tables 6 and 9.) Philadelphia had, until 1952, displayed an increasing sensitivity to the national trend in presidential elections, (See Table 10.) voting Democratic in the four elections from 1936 to 1948. (See Table 1.) In prior years Philadelphia voted consistently Republican and did not conform to the national Democratic trend in 1912 and 1916. (See Table 11.)

CONCLUDING OBSERVATIONS

In the presidential elections held since 1896, Philadelphia has largely conformed to the trend of the vote in the State of Pennsylvania and in the United States as a whole. Since 1932, it has conformed more closely to the national than to the state trend in the presidential elections. The results of the campaign in 1952 are the product of a combination of unprecedented local factors which caused Philadelphia to vote Democratic in sharp conflict with both the state and national trend.

In reviewing recent history it is apparent that Philadelphia and other major cities have come to reflect more closely the pattern for the nation, as would be expected as industrial urban concentrations develop. That it has been less like other major cities seems to be the result of certain local factors no longer apparent, and, in recent elections Philadelphia has either swung the state into the Democratic column or has greatly reduced the Pennsylvania Republican majority. In the light of present developments, one may well question whether Philadelphia may have as much or more influence than in the recent past because of the changes in the political complexion of the city and the State since 1932.

Philadelphia Business Index

The September 1950 issue of the **Bulletin** presented a new index of general business conditions in the City of Philadelphia. This series, prepared by Robert T. Kline and designed to reflect economic activity exclusively within the boundary of the city, was based upon a combination of statistical data representing (1) industrial electric power sales; (2) indexes of employment and employee-hours; (3) department store sales[1]; (4) bank debits; and (5) total construction. Because the method of reporting certain data is under revision by the originating agency, the change in average weekly hours worked and the monthly change in total employment in the Philadelphia metropolitan area, both prepared by the Pennsylvania Bureau of Employment Security, have been substituted for (2) above. This is a temporary expedient to maintain continuity of the index. The original data series will be restored after revision.

The following table presents the index for the years 1939 through 1951 and by month from January, 1952.[2]

Index of General Business Conditions, City of Philadelphia, 1947=100

Year	Index	1952 Month	Index
1939	73	Jan.	109.2
1940	77	Feb.	108.2
1941	96	Mar.	109.5
1942	99	Apr.	108.3
1943	106	May	110.5
1944	106	June	110.2
1945	98	July	108.0
1946	100	Aug.	109.1
1947	100	Sept.	113.5
1948	103	Oct.	113.6p
1949	97		
1950	108		
1951	111		

p=preliminary

[1]The revised index of Department Store Sales, published by the Federal Reserve Bank of Philadelphia, has been used in the composite index since October, 1951. The revised Wholesale Price Index, all commodities, published by the BLS, is used beginning January, 1952 as a deflationary index for the Bank Debit Series.

[2]Kline, Robert T., "A Measurement of General Business Conditions in the City of Philadelphia," **Economics and Business Bulletin,** School of Business and Public Administration, Temple University, Philadelphia, Pa., September, 1950, pp. 33-40.